

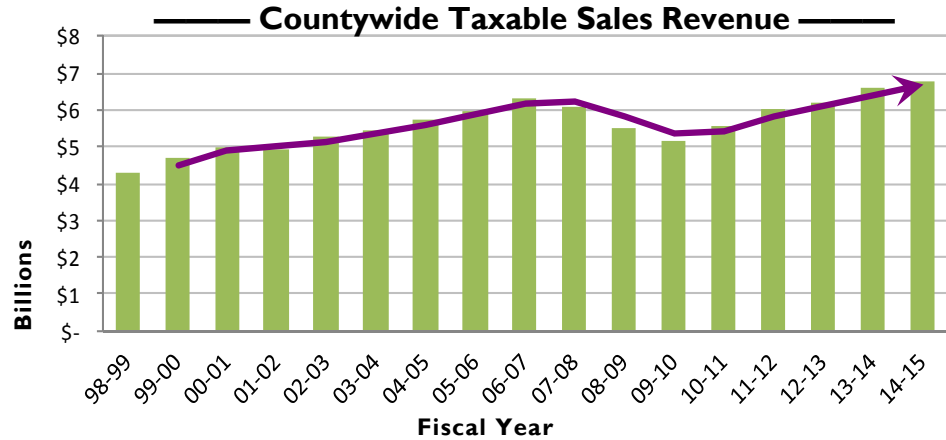


SALES & USE TAX HIGHLIGHTS

COUNTY OF SANTA BARBARA, Fiscal Year Ended June 30, 2015

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For the fiscal year (FY) ended June 30, 2015 taxable sales within the County of Santa Barbara, were approximately \$6.8 billion. **Countywide taxable sales increased 3.5% compared to the prior fiscal year amount of \$6.6 billion.** Taxable sales continue to grow at a moderate rate. The taxable sales trend reflects declines during the recession years and continuous growth for the last five years. The current economy and consumer confidence in the market affects taxable sales growth rates overtime.

The \$6.6 billion in taxable sales generated \$546.8 million of sales tax revenue for State and local governments. The 0.25% dedicated to the "Triple Flip" has come to an end with the payoff of the Economic Recovery Bonds. The 0.25% will be reverted back to local governments to restore the Local Bradley Burns (BB) Sales Tax rate to 1%.

The following chart illustrates sales tax revenue generated in FY 2014-15 (\$ in millions):

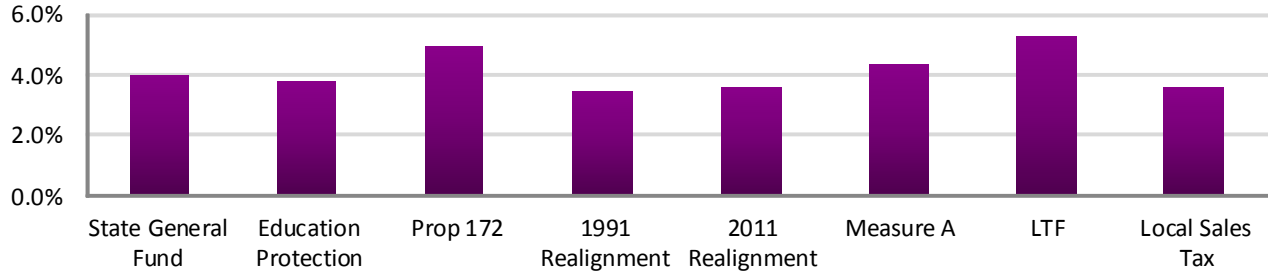
Sales & Use Tax

	Rate (%)	State	County	Cities & Other Entities	Total
State of California - General Fund	3.9375	\$ 268.0	\$ -	\$ -	\$ 268.0
State of California - Economic Recovery Fund: "Triple Flip"	0.25	17.0	-	-	17.0
Education Protection Account	0.25	17.0	-	-	17.0
County & City Public Safety - Prop 172	0.50	-	33.9	0.9	34.8
County Health & Welfare - 1991 Realignment	0.50	-	27.8	6.2	34.0
County Local Revenue Fund - 2011 Realignment	1.0625	-	63.5	8.8	72.3
County & City Road - Measure A	0.50	-	6.7	29.2	35.9
Countywide Transportation - Local Transportation Fund (LTF)	0.25	-	0.8	15.9	16.7
County & City General Operations - Local Bradley Burns Sales Tax	0.75	-	7.8	43.3	51.1
Total Tax Revenue	8.00%	\$ 302.0	\$ 140.5	\$ 104.3	\$ 546.8

Sales Tax Highlights

The overall average growth rate for the State and the County for FY 2014-15 was 3.5%. Individual components of the overall sales tax will vary from this growth rate due to allocation formula differences and the timing of distributions.

Sales Tax Growth by Tax Allocations



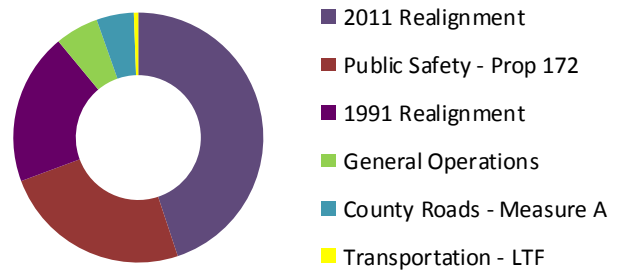
County Generated Revenues

Taxes generated from retail sales represent the second largest general revenue source for the County, the largest being property tax revenues.

County Sales Tax Revenues (Millions)

	FY 2012-13	FY 2013-14	FY 2014-15
2011 Realignment	\$ 59.7	\$ 62.2	\$ 63.5
Public Safety - Prop 172	31.1	32.3	33.9
1991 Realignment	26.7	27.2	27.8
General Operations	6.9	7.3	7.8
County Roads - Measure A	6.0	6.3	6.7
Transportation - LTF	0.5	0.7	0.8
Total	\$ 130.9	\$ 136.0	\$ 140.5

County Sales Tax Revenues



State 3.94%: California General Fund

For FY 2014-15, Santa Barbara County generated an estimated \$268 million in sales tax for the State's General Fund.

Revenues		Expenditures	
Personal Income Tax	67.7%	Education K - 12	43.4%
Sales & Use Tax	21.3%	Health & Human Services	26.2%
Corporation Tax	8.8%	Higher Education	11.6%
Other	2.2%	Corrections & Rehabilitation	8.8%
Insurance Tax	1.0%	General Government	1.9%
Liquor Tax	0.3%	Legislative, Judicial, Executive	2.6%
Tobacco Tax	0.1%	Natural Resources	2.2%
Budget Stabilization Acct	-1.4%	Other	1.9%
		Economic Recovery Bond Pymt	1.4%
Total	100.0%	Total	100%

- K-12 Education continues to be the State's top funding priority: 43 cents of every State General Fund dollar is spent on K-12 education.
- Combined with higher education funding, the State spends almost 55 cents of every State General Fund dollar on education.
- Education, health & human services, and state corrections expenditures constitute 90% of all State General Fund expenditures.

Source: California Department of Finance

State 0.25%: Economic Recovery Fund

The State balanced its FY 2003-04 budget by acquiring voter approval to receive up to \$15 billion through the sale of “Economic Recovery” bonds. The State issued \$14.1 billion in bonds, and received \$924 million in bond premiums, resulting in \$15 billion in cash receipts. The bonds required a dedicated State revenue source to guarantee bond repayment; in order to have an identifiable dedicated revenue source, the State developed and initiated the revenue “swapping” procedure that is referred to as the “Triple Flip.”

Economic Recovery Bonds (Billions)

Fiscal Year	Issued	Principal Payment	Balance
2003-2008	\$ 14.1	\$ 4.1	\$ 10.0
2008-2013	-	4.8	5.2
2013-2014	-	0.7	4.5
2014-2015	-	3.6	0.9
2015-2016	-	0.9	-
Total	\$ 14.1	\$ 14.1	\$ 0

Source: California State Treasurer’s Office

The “Triple Flip” Facts

- In 2004, the Local Sales and Use Tax rate was reduced from 1% to 0.75%.
- The “Triple Flip” replaced local sales tax revenues on a dollar-for-dollar basis with local property tax revenues from the County Educational Revenue Augmentation Fund, frequently referred to as “ERAF.”
- Economic Recovery Bonds were defeased on August 5, 2015.
- On January 1, 2016 the Local Sales and Use Tax rate reverts back to 1% for local governments.

Proposition 30: 0.25% Education Protection Account

In 2012, California voters approved a 0.25% increase to the sales tax rate for four years from January 1, 2013 through December 31, 2016. The new tax revenue is guaranteed in the California Constitution to go directly to an Education Protection Account. All moneys in the Education Protection Account are appropriated for the support of school districts, county offices of education, charter schools, and community college districts. Santa Barbara County generated an estimated \$17 million for the Education Protection Account in FY 2014-15.

Proposition 172: 0.5% for Public Safety

During the FY 1993-94 State budget process, the State Legislature and the Governor found it necessary to shift local property tax revenues from local agencies to K-12 schools and community colleges in order to balance the State Budget. The voters partially offset these losses by approving Proposition 172, a 0.5% sales tax to fund local public safety services.

State Allocation Method:

Proposition 172 revenues are allocated to county governments throughout the State, based on a taxable sales factor. The factor is based upon the actual sales in the county (cities plus unincorporated areas) divided by the total State sales from the prior year. Each year, the State releases the updated allocation factor for each county and it performs a retroactive adjustment for all county allocations/payments made in September through December of the current FY.

In FY 2014-15, Prop 172 revenue increased 4.9% and generated \$34.82 million countywide. Prop 172 revenue is estimated to increase 4% in FY 2015-16.

In FY 2014-15, Prop. 172 revenues were allocated as follows:

- \$33.92 million to the County public safety departments.
- \$0.90 million to the city public safety agencies.

Prop 172 - Public Safety Estimate & Revenue Trend

Fiscal Year	Revenue		
	Factor	(millions)	Growth
2015-16 Est.	1.0797%	\$35.46	4.0%
2014-15	1.0797%	34.82	4.9%
2013-14	1.0842%	33.18	3.8%
2012-13	1.0986%	31.95	5.7%
2011-12	1.1129%	30.24	9.5%
2010-11	1.1191%	27.63	5.9%
2009-10	1.1074%	26.08	-1.4%
2008-09	1.0825%	26.44	-14.1%
2007-08	1.0974%	30.77	-0.4%
2006-07	1.0830%	30.88	-1.9%
2005-06	1.1097%	31.48	5.2%
2004-05	1.1419%	29.93	6.7%
2003-04	1.1527%	28.05	8.5%
Total		\$396.91	

1991 Realignment: 0.5% for Health & Welfare Programs

To decrease the FY 1991-92 State budget deficit, the legislature made a number of structural changes. Among the most significant was the shift of responsibility from the State to the counties for health, mental health and various social services programs, accompanied by a dedicated revenue stream to pay for the funding changes; this shift is known as "Realignment-1991." The State increased the sales tax and vehicle license fee (VLF) and devoted these revenues to fund the increased financial obligations to the counties.

State Allocation Method:

The allocation mechanism is formula driven and designed to at least maintain the funding levels from FY 1991-92; funding levels are then adjusted annually and the funding is distributed proportionately based on the population and poverty calculations performed by the State Department of Finance. In addition, the revenues received in one year (plus any growth in revenues for that FY) become the base level of funding for the following fiscal year.

In FY 2014-15, while the 0.5% sales tax in Santa Barbara County generated \$34 million in taxes for the State pool, the County only received \$27.8 million which is a 2.2% growth from the prior year.

1991 Realignment Programs	2012-2013		2013-2014		2014-15	
	Amount	% Change from PY	Amount	% Change from PY	Amount	% Change from PY
Social Services	\$ 13,797,092	5.0%	\$ 14,258,426	3.3%	\$ 15,012,797	5.3%
CalWORKs	9,911,778	3.7%	9,793,109	-1.2%	8,585,529	-12.3%
Child Poverty & Family Support	—		—		671,334	
Health Services	3,000,583	11.3%	3,108,589	3.6%	3,179,143	2.3%
Mental Health Services	—		—		309,437	
Total	\$ 26,709,453	5.2%	\$ 27,160,124	1.7%	\$ 27,758,240	2.2%

2011 Realignment: 1.0625% Local Revenue Fund 2011

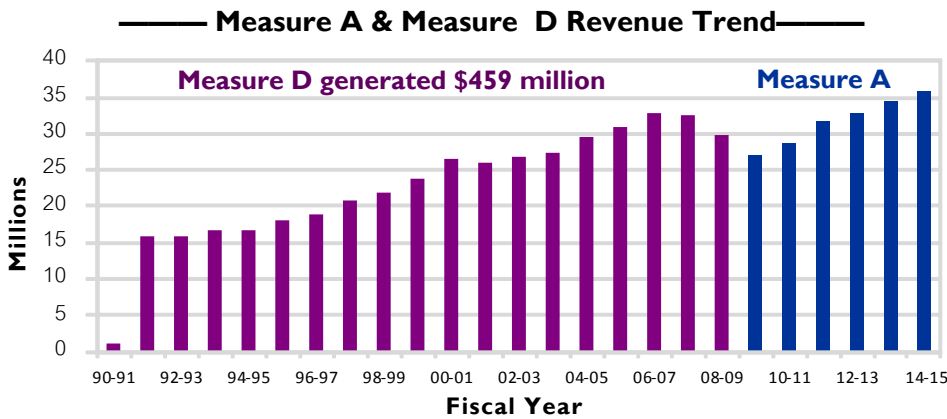
As part of the 2011-12 budget plan, the Legislature enacted another realignment of State program responsibilities and revenues to local governments. The Legislature approved the diversion of 1.0625 cents of the State's sales tax rate to counties to fund the 2011 Realignment revenue which provides funding for three major programs. Support Services provides funding for protective services for the child welfare system, seniors and dependent adults, as well as behavioral health to fund alcohol and drug programs. The Mental Health program provides replacement funding for the 1991 Realignment mental health programs. Law Enforcement Services provides funding for trial court security, community corrections, juvenile justice, district attorney and public defender, as well as funding for enhancing law enforcement activities.

For FY 2014-15 the County received \$63.6 million out of the \$72.3 million that the 1.0625% sales tax rate generated for the County. The 2011 Realignment revenue increased 2.3% from the prior year.

2011 Realignment Programs	2012-2013		2013-2014		2014-15	
	Amount	% Change from PY	Amount	% Change from PY	Amount	% Change from PY
Support Services	\$ 24,809,182	58.9%	\$ 24,722,329	-0.4%	\$ 26,336,711	6.5%
Mental Health	10,474,112	3.4%	10,474,112	0.0%	10,474,112	0.0%
Law Enforcement Services – County	23,817,774	21.5%	26,285,165	10.4%	26,110,696	-0.7%
Law Enforcement Services – Cities	642,548	5.7%	679,790	5.8%	675,278	-0.7%
Total	\$ 59,743,616	30.0%	\$ 62,161,396	4.0%	\$ 63,596,797	2.3%

Measure A: 0.5% for County Roads

On November 7, 1989, the voters of the County of Santa Barbara approved Measure D, the Santa Barbara Roads Improvement Program. As a result of the passage of Measure D, effective April 1, 1990, the local sales tax rate was increased 0.5% countywide. Measure D generated \$459 million for local and regional transportation projects during the twenty years it was in effect. The transportation sales tax was set to expire in March 2010. In 2008, the voters of the County of Santa Barbara passed Measure A, which extended the Santa Barbara Roads Improvement Program for an additional 30 years. Measure A sales tax revenue increased 4.2% in FY 2014-15 to \$35.86 million.



Measure A		
Fiscal Year	Revenue (in millions)	Growth
2015-16 Est.	\$ 37.36	4.0%
2014-15	35.86	4.2%
2013-14	34.41	5.3%
2012-13	32.69	2.9%
2011-12	31.77	10.1%
2010-11	28.85	6.7%
Total	\$ 201.34	

Measure D		
Fiscal Year	Revenue (in millions)	Growth
2005-10	\$ 153.24	3.2%
2000-05	136.20	4.5%
1995-00	103.77	7.3%
1990-95	66.17	3.6%
Total	\$ 459.38	

LTF: 0.25% for County Transportation

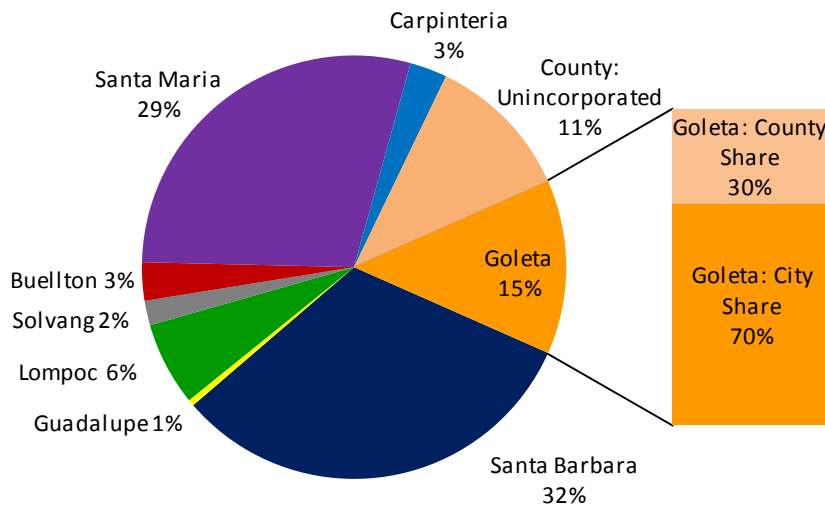
The Transportation Development Act (TDA) went into effect in 1972, and provided for two major sources of funding for local transportation providers, the Local Transportation Fund (LTF) and the State Transit Assistance (STA) Fund. The TDA established that the revenue source for the LTF would be derived from the 0.25% statewide sales tax. This tax made funding available to transportation providers such as cities, counties, and other entities that provide transit services for a community. Within Santa Barbara County, Santa Barbara County Association of Governments (SBCAG) allocates the LTF funds towards transit, transportation planning, pedestrian & bicycle facilities, and for street & roads purposes. LTF sales tax revenue increased by 5.4% in FY 2014-15.

Entities	2012-2013		2013-2014		2014-2015	
	Amount	% Change from PY	Amount	% Change from PY	Amount	% Change from PY
County	\$479,001	-28.9%	\$698,480	45.8%	\$845,979	21.1%
Cities	7,221,723	9.0%	7,329,515	1.5%	7,596,120	3.6%
SBCAG	299,843	4.1%	311,457	3.9%	329,368	5.8%
Easy Lift	352,117	2.6%	364,956	3.6%	385,352	5.6%
SBMTD	6,690,231	2.6%	6,934,150	3.6%	7,321,681	5.6%
SMOOTH	241,108	9.5%	250,317	3.8%	263,396	5.2%
Total	\$15,284,023	4.2%	\$15,888,875	4.0%	\$16,741,896	5.4%

Local 0.75% Tax to Support General Operations

In order to support the general operations of the local government (cities and counties), the 0.75% Local Sales and Use Tax (frequently referred to as the “Bradley-Burns Tax”) was enacted to return a percentage of each taxable sale to the jurisdiction in which the sale took place. FY 2014-15 countywide taxable sales generated \$51 million of Local 0.75% Sales Tax revenue for local jurisdictions; this represents an increase of 3.5% from the prior year.

Local 0.75% Sales Tax Revenue By Location



The increase is primarily due to increases in sales tax from the following categories: Autos & Transportation, Restaurant & Hotels, and Building & Construction.

The County shares sales tax revenue with the City of Goleta (City). The sales tax revenue generated in the City was split 50/50 between the City and the County for 10 years under a revenue neutrality agreement required by the city incorporation provisions that ended June 30, 2012. Beginning in FY 2012-13 the revenue split changed to 70/30, with 70% allocated to the City and the remaining 30% allocated to the County in perpetuity.

On January 1, 2016 the Local Sales and Use Tax rate reverts back to 1% due to the end of the “Triple Flip”.

Local 0.75% Sales Tax Revenue by Jurisdiction Three -Year Trend

Jurisdiction	2012-2013		2013-2014		2014-15	
	Amount	% Change from PY	Amount	% Change from PY	Amount	% Change from PY
City of Santa Barbara	\$15,008,939	3.4%	\$15,905,946	6.0%	\$16,367,998	2.9%
City of Santa Maria	13,323,484	2.8%	14,319,740	7.5%	14,768,077	3.1%
Goleta: City Share	4,589,904	45.8%	4,651,019	1.3%	4,740,943	1.9%
Goleta: County Share	1,967,102	-37.5%	1,993,294	1.3%	2,031,833	1.9%
County: Unincorporated	4,965,908	4.0%	5,293,904	6.6%	5,738,324	8.4%
City of Lompoc	2,888,351	1.6%	3,109,699	7.7%	3,262,183	4.9%
City of Buellton	1,324,136	4.8%	1,461,975	10.4%	1,488,284	1.8%
City of Carpinteria	1,242,218	-3.3%	1,468,139	18.2%	1,443,782	-1.7%
City of Solvang	844,374	2.9%	897,236	6.3%	961,033	7.1%
City of Guadalupe	320,681	58.9%	222,809	-30.5%	248,828	11.7%
Countywide Total	\$46,475,097	3.4%	\$49,323,761	6.1%	\$51,051,282	3.5%

Business Groups

Retail activity can also be summarized by business groups. Each sales tax generating entity is categorized by the State Board of Equalization. Each category is then placed in one of the following eight groups. The following table represents changes in the various business groups, led by growth in automobile sales and declines in gasoline fuel costs.

Countywide Business Groups Comparison			
Business Group	2013-14	2014-15	Growth
General Consumer Goods	\$12,200,968	\$12,367,296	1.4%
Business and Industry	9,117,790	9,503,812	4.2%
Autos and Transportation	6,817,638	7,572,071	11.1%
Restaurants and Hotels	6,927,578	7,444,799	7.5%
Fuel and Service Stations	5,458,737	4,937,576	-9.5%
Building and Construction	4,061,048	4,353,843	7.2%
Food and Drugs	3,907,979	4,062,268	3.9%
Other Allocations	801,840	778,849	-2.9%
TOTALS	\$49,293,578	\$51,020,513	3.5%

Business Groups Highlights

Autos and Transportation

- Automobile sales grew at 11.1% during FY 2014-15 and generated \$7.6 million.

Restaurants and Hotels

- Restaurants and Hotels generated \$7.4 million in sales tax revenue which was an increase of 7.5% from the prior year.

Building and Construction

- Building and Construction had a 7.2% growth from the prior year.

Fuel and Service Stations

- Sales tax revenue generated from Fuel and Service Stations decreased by 9.5% due to the decrease in the price of fuel.

The economy continues to grow. The labor market and job gains have been consistently strong on a year-over-year basis since 2012. California is approaching pre-recession levels of unemployment. The real estate market and construction permit activity continues to improve, consistent with stronger job growth in construction. Automobile sales continue to see growth as interest rates continue to remain low.

Source: California Department of Finance

Top Retailers Countywide

In FY 2014-15 the top 25 retailers generated \$10.5 million in Local 0.75% Sales Tax revenues, which represents 21% of the countywide total.

Since taxpayer sales information is confidential, we can only disclose business activity in ways that do not reveal the actual sales results of the taxpayer. The following list identifies the top twenty-five taxable sale businesses within the county for the FY ended June 30, 2015.

Top 25 Sales Tax Producers Countywide

Businesses (Alphabetical Order)	Locations
ALBERTSONS LLC	9
AMAZON.COM LLC	-
AUDI, BMW, PORSCHE, SB AUTO GROUP	3
BEST BUY STORE LP	2
CONSERV FUEL - #6115	5
COSTCO WHOLESALE CORPORATION	2
CROP PRODUCTION SERVICES, INC	2
CVS/PHARMACY	12
FOOD CO #371	4
HOME MOTORS	1
HOMER T. HAYWARD LUMBER CO.	4
HONDA OF SANTA MARIA	1
MACY'S WEST STORES, INC.	3
NORDSTROM INC.	1
PORTER & HOWARD INC.	1
ROSS DRESS FOR LESS	4
ROYAL WHOLESALE ELECTRIC INC	4
SEARS-ROEBUCK AND CO.	5
TARGET STORES	1
TESORO WEST COAST COMPANY LLC	8
THE HOME DEPOT	3
THE VONS COMPANIES, INC.	8
TOYOTA OF SANTA BARBARA	1
USA GASOLINE	5
WAL-MART STORES	4

Local Sales Tax: County Audit Results

Misallocation of the Local Sales Tax Revenue

The State Board of Equalization (BOE) allocates the Local 0.75% Sales Tax to jurisdictions (cities and counties) in which the sales took place to support the general operations of the local governments. The BOE requires that each retailer collecting sales tax register with the BOE and identify the jurisdiction in which the retailer is located. Retailers often register using an incorrect jurisdiction which results in misallocated revenue. The Auditor Controller's Office (Auditor) receives and reviews BOE data to perform its own audits. The Auditor uses a system developed in-house, the Sales Tax Claims and Reporting System, to identify misallocated revenue that is generated from businesses located in the County unincorporated area that are incorrectly reporting their sales tax as being generated in a city. When misallocated revenue is identified, the Auditor submits a claim to the BOE and requests that the appropriate corrections be made to transfer the misallocated revenue to the County, as permitted under statute.

Revenue Shifted to Date

The table below illustrates the number of claims submitted and approved by the BOE over the past fourteen years. Included in the table is also the claim estimate (misallocated revenue) and the revenue reallocated to the County (actual transfers) based on the approved claims. The table also includes an estimate of the total revenue reallocated to date.

Fiscal Year(s)	Claims Submitted	Claims Approved	Claim Estimate	Revenue Reallocated	Estimated Revenue to Date
1998 – 2009	778	725	\$1,345,062	\$974,076	\$6,390,480
2010-11	58	56	41,952	26,097	174,920
2011-12	168	149	101,114	94,288	258,000
2012-13	62	48	57,785	61,800	184,020
2013-14	130	121	100,476	76,401	148,890
2014-15	87	64	65,440	42,264	120,040
Totals	1,283	1,163	1,711,829	1,274,926	7,276,350

Taxable Sales Growth / Decline Trend and Forecast

The County taxable sales growth generally mirrors statewide taxable sales growth. However, the County taxable sales growth is less volatile and generally lags statewide changes. In FY 2014-15, the County taxable sales grew 3.5% which is less than the Statewide growth of 4.9%. The large State increase and subsequent large decrease, seen in FY 2009-10 and FY 2011-12 respectively, were the result of a temporary 1% sales tax rate increase and expiration. Based on the current trend, the growth is estimated to be about 3%-4% growth from the prior year.

